

CIRCULAR LETTER

To

ALL COMMERCIAL BANKS

Subject : Amendment to Bank Indonesia Circular Letter Number 10/2/DPM dated January 31, 2008, concerning Repurchase Agreement Transactions with Bank Indonesia in Secondary Market.

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Following the improvement of implementation of monetary policy, improvement of provisions relating to Bank Indonesia-Scripless Securities Settlement System, and improvement of valuation on underlying assets in transactions by Repurchase Agreement (Repo) with Bank Indonesia in secondary market, it is deemed necessary to amend some provisions in Bank Indonesia Circular Letter Number 10/2/DPM dated January 31, 2008, concerning Repurchase Agreement Transactions with Bank Indonesia in secondary market, as follows.

1. Provision in chapter I number 8 is amended that chapter I reads as follows.

I. GENERAL PROVISIONS

Terminologies used in this Bank Indonesia Circular Letter are defined as follows.

1. Bank is a Commercial Bank as referred to in Act Number 7 of 1992 concerning Banking as amended by Act Number 10 of 1998 conducting business on conventional basis.

2. Open Market Operation, hereinafter to be referred to as OMO, is a transaction activity in the money market conducted by Bank Indonesia with Banks and other parties in the effort of monetary management.
3. Securities is a securities issued by Bank Indonesia, the Government, and/or other institutions, administered in Bank Indonesia - Scripless Securities Settlement System.
4. Bank Indonesia Certificate, hereinafter to be referred to as SBI, is a securities denominated in the Rupiah issued by Bank Indonesia as a short-term debt instrument.
5. Government Bond, hereinafter to be referred to as SUN, is a securities in the form of promissory note as referred to in Act Number 24 of 2002 concerning Government Bond, comprising Treasury Bill and Treasury Bond.
6. Treasury Bill, hereinafter to be referred to as SPN, is a SUN with a maturity of up to 12 (twelve) months and interest payment by discount.
7. Treasury Bond, hereinafter to be referred to as ON, is a SUN with a maturity of more than 12 (twelve) months with coupon and/or with interest payment by discount
8. BI Rate is a policy rate which reflects the stance of monetary policy stipulated by Bank Indonesia and announced to the public
9. Bank Indonesia - Real Time Gross Settlement System, hereinafter to be referred to as BI-RTGS System, is a system for electronic fund transfer among BI-RTGS System members in the Rupiah with settlement in real time and on individual per transaction basis.
10. Bank Indonesia - Scripless Securities Settlement System, hereinafter to be referred to as BI-SSSS, is a system that provides transaction facilities with Bank Indonesia including its administration and electronic securities administration, seamlessly interconnected among participants, the Operator, and the BI-RTGS System.

#### 11. Repurchase ...

11. Repurchase Agreement Transaction, hereinafter to be referred to as Repo, is a Securities selling transaction by Bank to Bank Indonesia under obligation to repurchase at an agreed price and term.
  12. Demand Deposit Account is a fund account of Bank in the Rupiah with Bank Indonesia.
  13. Trading Account is a Securities account of Bank which is used to register tradable Securities ownership in the Central Registry
  14. Commercial Bank Daily Report System, hereinafter to be referred to as LHBU System, is a reporting facility of Banks to Bank Indonesia on daily basis which provides information on money market and announcement of Bank Indonesia
  15. Haircut is a margin stipulated by Bank Indonesia as a subtracting factor of Securities price.
2. Provisions in chapter II number 5 and number 7 are amended that chapter II reads as follows.

## II. GENERAL REQUIREMENTS

1. Bank Indonesia shall open window time for 1 (one) day Repo transaction through an announcement in the BI-SSSS and/or LHBU System.
2. Securities used in Repo transaction shall be Rupiah denominated Securities.
3. The Repo transaction as referred to in number 1 shall be conducted under sell and buy back principle, namely Securities selling by Bank with an obligation to be repurchased by the concerned Bank upon the maturity of the Repo transaction.
4. Party eligible to submit Repo transactions is Bank for its own behalf.

5. Bank ...

5. Bank Indonesia shall charge an interest on Repo transaction (Repo rate) which rate shall be announced in the BI-SSSS and/or the LHBUS System no later than before the Repo transaction window time opens (T+0).
  6. Any Bank conducting Repo transaction with Bank Indonesia shall be accountable for the validity of the submitted Repo data.
  7. Any Bank may submit Repo transactions if the Bank is in the status of active as a BI-SSSS participant and not under imposition of sanction of suspension to participate in OMO activities.
  8. Repo transaction settlement shall be conducted on the transaction day (same day settlement) by Delivery Versus Payment mechanism.
  9. Any Bank shall hold adequate Securities series in its Trading Account for Securities selling settlement under Repo on the Repo transaction settlement at the latest (first leg).
  10. Any Bank shall hold an adequate balance in its Demand Deposit Account for Securities repurchasing settlement on the Repo transaction maturity date (second leg).
  11. Bank Indonesia may change or close the Repo transaction window time which shall be announced through the BI-SSSS and/or the LHBUS System no later than 1 (one) business day prior to the window time change or closing.
3. Provision in chapter III number 4 is amended that chapter III reads as follows.

### III. SECURITIES REQUIREMENTS AND VALUES

1. Securities tradable under Repo are Securities in the form of SBI and/or SUN hold by Bank as registered in Trading Account with the BI-SSSS.
2. On Repo transaction maturity date any Securities under Repo shall still have remaining days to maturity at least of :

a. 2 (two) ...

- a. 2 (two) business days for SBI and SPN; or
    - b. 10 (ten) business days for Treasury Bond including Retail Treasury Bond (ORI) and Zero Coupon Bond (ZCB).
  3. Any Securities tradable under Repo by a Bank shall amount to the maximum nominal value of Securities held by the Bank on 1 (one) business day prior to the date of transaction.
  4. Bank Indonesia shall determine and announce price of Securities tradable under Repo with provisions as follows.
    - a. SBI price shall be determined taking into account of weighted average discount rate on issuance and remaining days to maturity of each SBI series.
    - b. SUN price shall be determined taking into account market price of each SUN type and series.
  5. To prescribe Repo Selling settlement value, Bank Indonesia shall determine a Haircut rate of each type of Securities.
  6. Securities price used in the computation of Securities selling on Repo transaction date (first leg) shall be same with the Securities price applied in the calculation of Securities repurchase on the Repo transaction maturity date (second leg).
  7. Bank Indonesia shall determine types and/or series of Securities tradable under Repo.
4. Provision in chapter IV number 1 is amended that chapter IV reads as follows.

#### IV. APPLICATION FOR REPO SECURITIES TRANSACTIONS

1. Bank Indonesia-Directorate of Monetary Management shall announce Repo rate, Haircut, Securities price, and Repo tenor through the BI-SSSS and/or LHBU System no later than before the Repo transaction window time opens (T+0).

2. Repo transaction window time is from 4.00 p.m. up to 5.00 p.m. (western Indonesia standard time) every business day.
  3. During the Repo transaction window time Banks shall submit transactions directly through the BI-SSSS by including, among other things, types, series, and nominal value of Securities under Repo and transaction tenor.
  4. Settlement value of each Securities under Repo shall be computed based on nominal value, price, Repo rate, Repo tenor, and Haircut of each type of Securities. An example of calculation of Repo transaction is presented in Appendix 1.
  5. If the Repo transaction as referred to in point II.1 is conducted on 1 (one) business day before a holiday, the Repo transaction maturity shall be the following business day.
  6. Number of days in the calculation of Repo rate to be paid by Bank shall be counted by calendar days.
5. Provisions in chapter V are amended by adding 1 (one) new number, namely number 3 that chapter V reads as follows.

## V. SETTLEMENT

1. Bank Indonesia, c.q. Directorate of Monetary Management - Monetary Management Transaction Settlement Division (DPM-PTPM) shall settle Repo transactions through the BI-SSSS under transaction by transaction (gross to gross) mechanism.
2. The Repo transaction settlements as referred to in point 1 comprise:
  - a. Securities selling settlement (first leg).
    - 1) On Repo transaction date, the DPM-PTPM shall conduct first leg settlement after the Repo transaction window time closes.

2) The ...

2) The first leg settlement value as referred to in point 1) shall be computed as follows.

a) For Repo using SBI, SPN, and ZCB

First Leg Settlement Value	=	Nominal Value of Securities under Repo	× (Price - Haircut)
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b) For Repo with using ON including ORI

First Leg Settlement Value	=	$\left( \begin{array}{l} \text{Nominal Value} \\ \text{of Securities} \\ \text{under Repo} \end{array} \times (\text{Price} - \text{Haircut}) \right) + \begin{array}{l} \text{Accrued} \\ \text{Interest} \end{array}$
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3) First leg settlement shall be conducted by :

- a) debiting Trading Account amounting to nominal value of type of Securities under Repo; and
  - b) crediting Demand Deposit Account amounting to value of first leg fund settlement value as referred to in point 2).
- 4) Any Bank is required to hold adequate Securities series under Repo for the first leg settlement.
- 5) If a Bank fails to provide adequate Securities as referred to in point 4), the BI-SSSS shall automatically cancel the first leg settlement.
- 6) The cancellation of the first leg settlement as referred to in point 5) shall only be imposed on Repo transactions that fail to provide adequate Securities series.
- 7) If the cancellation of the first leg settlement occurs more than 1 (one) time on a same day, the cancellation of transaction shall be counted 1 (one) time.

8) Any ...

- 8) Any Bank shall be imposed OMO sanctions on the cancellation of settlement as referred to in point 5) in accordance with applicable provisions.

b. Securities repurchasing settlement (second leg)

- 1) A second leg settlement shall be automatically conducted when the BI-SSSS opens on Repo transaction maturity date.
- 2) The second leg settlement value shall be computed as follows.

Second Leg Settlement Value	=	First Leg Settlement Value	+	Repo Transaction Interest value
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- 3) The second leg settlement shall be conducted by :
  - a) debiting Demand Deposit Account amounting to the second leg settlement value as referred to in point 2); and
  - b) crediting Trading Account amounting to the nominal value of Securities under Repo.
- 4) Any Bank is required to hold an adequate balance in its Demand Deposit Account for the second leg settlement.
- 5) If the Bank does not hold an adequate balance in the Demand Deposit Account up to the BI-RTGS System cut-off warning time, the BI-SSSS shall automatically cancel the second leg settlement.
- 6) The cancellation of the second leg settlement shall only be conducted on mature Repo transaction which does not have adequate funds.
- 7) If the cancellation of the second leg settlement occurs more than 1 (one) time on a same day, the transaction cancellation shall be counted 1 (one) time.



- 8) Any Bank shall be imposed OMO sanctions on the cancellation of the second leg settlement as referred to in point 5) in accordance with applicable provisions.
- 9) In the event on any failure in redemption of mature Repo transaction in the second leg settlement by Bank, Bank Indonesia shall :
  - a) debit Demand Deposit Account through the BI-RTGS System for the settlement of Repo interest nominal value to be paid;
  - b) settle Securities amounting to the nominal value of Securities which fails to be settled by :
    - (1) conducting early redemption on SBI series automatically through the BI-SSSS; and/or
    - (2) treating SUN series which fails to be repurchased by the Bank as an outright selling transaction automatically through the BI-SSSS.

3. If Bank Indonesia receives coupon payment of SUN under Repo, the coupon will be credited into Demand Deposit Account of Bank on the coupon payment date.

6. Provisions in chapter VI are amended to read as follows.

## VI. SANCTIONS

1. Any Bank cancelling Repo transaction settlement as referred to in point V.2.a.5) or V.2.b.5) shall be liable to OMO sanctions in the form of :
  - a. written warning, with a copy to :
    - 1) concerned Directorate of Bank Supervision, if the sanction is imposed on a Bank which head office is located in the working area of Bank Indonesia Head Office; or

2) Bank ...

- 2) Bank Supervision Team of local Bank Indonesia Regional Office, if the sanction is imposed on a Bank which head office is located in the working area of a Bank Indonesia Regional Office; and
  - b. Financial penalty of 1<sup>0</sup>/<sub>00</sub> (one per one thousand) of the cancelled transaction nominal value with a maximum penalty of Rp1,000,000,000.00 (one billion rupiah).
2. Any Bank cancelling transactions for 3 (three) times in a period of 6 (six) months, in addition to the sanctions as referred to in point 1, shall also be liable to a sanction of suspension to participate in OMO activities for 5 (five) business days.  
An example of imposition of sanction of suspension to participate in OMO transactions is presented in Appendix 2.
3. The written warning as referred to in point 1.a. shall be delivered on 1 (one) business day after the cancellation of transaction.
4. The sanction of financial penalty as referred to in point 1.b shall be imposed by debiting Demand Deposit Account Rupiah of the Bank with Bank Indonesia on 1 (one) business day after the cancellation of transaction
5. The sanction of suspension to participate in OMO transactions as referred to in point 2 shall be imposed on 1 (one) business day after the cancellation of transaction.
6. The transaction nominal value as referred to in point 1.b is the nominal value of Securities under Repo as referred to in point V.2.a.2).
7. A new Appendix is added to this Circular Letter, namely Appendix 2, containing an example of imposition of sanctions on OMO transaction cancellation.

Provisions ...

Provisions in this Circular Letter shall come into force as of July 14, 2008.

For the public to be informed, it is ordered that this Bank Indonesia Circular Letter be promulgated in the Official Government Gazette of the Republic of Indonesia.

Please be informed accordingly.

BANK INDONESIA,

EDDY SULAEMAN YUSUF  
DIRECTOR OF MONETARY MANAGEMENT

DPM